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**CROWS
NEST
INDUSTRIES
LIMITED**



**79th
1975 Annual
Report**



CROWS NEST INDUSTRIES LIMITED

CORPORATE INFORMATION

OFFICERS

THOMAS F. GLEED, Chairman
M. BRUCE PEPPER, President
J. J. CRABB, Vice President, Exploration
BRIAN C. PINNELL, Secretary-Treasurer
Comptroller

FOREST PRODUCTS

NORMAN S. DENMARK, General Manager

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

SHARE LISTING

TORONTO STOCK EXCHANGE — ticker
abbreviation CNC

AUDITORS

CLARKSON, GORDON & CO., Calgary

BANKERS

BANK OF MONTREAL
CANADIAN IMPERIAL BANK OF COMMERCE
SEATTLE-FIRST NATIONAL BANK

OPERATIONS

HEAD OFFICE — Fernie, British Columbia
SAWMILL — Elko, British Columbia

REPORT TO SHAREHOLDERS

Net income for 1975 was \$487,000 compared to a loss of \$831,000 for 1974 but it should be noted that these results are not truly comparable. A \$1,047,000 write down of forest products inventories at the end of 1974 had an adverse effect on that year's earnings but made possible the profit reported for 1975.

FOREST PRODUCTS

In view of the adverse conditions at the beginning of the year serious consideration was given to closing the sawmill but a keen awareness of the impact of such action on the community and of the importance of utilizing natural resources in the public interest caused your directors to decide to maintain operations on a one-shift basis. Fortunately, there was a gradual improvement in lumber prices during most of 1975 with a sharp rise towards the end of the year which has continued into 1976.

A normal two-shift operation will be considered if the strength in lumber prices persists.

In March of 1975 the former British Columbia provincial government fixed a price of \$35 per unit of bone dry chips sold to the pulp mills in the province. This brought about a considerable increase in the Company's income but the closure of pulp mills by strikes caused a reduction in shipments of chips, and thus prevented the full benefit of the higher price from being realized.

It was announced by the present government that the price of chips would be \$30.30 per bone dry unit as of March 1st, 1976 and would be flexible at a formula rate in relationship to the price of bleached kraft pulp sold from British Columbia.

COAL

The significance of Crows Nest's metallurgical coal interest was recently confirmed by the Company's announcement that an agreement in principle had been reached with Mitsui & Co., Ltd. under which a detailed feasibility study of the Line Creek coal properties will commence in 1976 and is expected to take one year to complete. If the results of this study are satisfactory to Mitsui and Crows Nest, all the financing required to bring the property into production will be arranged by Mitsui in return for a 49% interest in a new joint venture company. Crows Nest will contribute its coal licences in the Line Creek area in return for a 51% interest in this joint venture company. The projection for annual coal production from the Line Creek project is 1,000,000 to 1,300,000 tons with deliveries starting in the latter part of 1980. Mitsui will be appointed the agent for all export sales.

The British Columbia government has been kept fully informed and have been encouragingly cooperative. An environmental impact study is presently being made and it is expected that the Line Creek project will present minimal environmental problems. It is

also fortunate that Line Creek is well located in relation to the Elk Valley line of C.P. Rail and is within easy commuting distance of the two established townsites of Elkford and Sparwood, B.C. Representations to the Foreign Investment Review Agency are underway and there is no reason to believe that the programme will not be satisfactory to that agency.

OIL AND GAS

There was a significant increase in revenue from the company's petroleum and natural gas holdings again in 1975. The cash contribution from the holdings was \$1,250,000, 56% greater than 1974 due entirely to increases in the prices of both oil and gas which more than offset declines in production. A successful gas well recently drilled within an operating unit will supplement reserves to a small extent.

OTHER

Starting on January 1, 1977 Crows Nest will earn a production payment of 50¢ per short ton of coal shipped by Kaiser Resources Ltd. from properties formerly held by Crows Nest until a total of \$34,000,-000 has been paid. In 1975 approximately 6,000,000 short tons of coal were shipped by Kaiser from these properties.

The 1968 agreement and understanding between Crows Nest and Kaiser provided for the reconveyance to your company on or before February 29, 1976 of 40% (about 43,000 acres) of the coal bearing lands that were deeded to Kaiser. This was done to afford the time necessary to evaluate and select the coal bearing acreage which, in Kaiser's opinion, contained 60% of the most valuable reserves from a standpoint of mineability and quality. A technical problem has been encountered in the reconveyance which has led Crows Nest to grant an extension until March 31, 1976 for the execution of the reconveyance documents.

DIRECTORS

During 1975 we lost, through death, a most valued director, Mr. F. Drewe Pratt, who had been on our board for 37 years.

The vacancy was filled by Mr. Samuel K. Ketcham, President of West Fraser Timber Co. Ltd. Mr. Ketcham is an outstanding businessman highly regarded for his capabilities particularly in the forest products industry, and he will make a most valuable contribution to the deliberations of your board.



Thomas F. Gleed
Chairman

M. Bruce Pepper
President

FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1975, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 25, 1976

CLARKSON, GORDON & CO.
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED
(Incorporated under the Canada Corporations Act)
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1975 and 1974

A S S E T S

CURRENT:

	1975	1974
Cash and term deposits	\$ 2,217,000	\$ 1,102,000
Accounts receivable.....	1,228,000	849,000
Inventories (Note 2)	1,298,000	1,801,000
Prepaid expenses	217,000	490,000
	<hr/> <u>4,960,000</u>	<hr/> <u>4,242,000</u>

FIXED:

Forest products —

Timber cutting rights, roads and real estate less accumulated depletion of \$2,672,000 (1974 - \$2,426,000)	1,918,000	1,741,000
Plant and equipment less accumulated depreciation of \$4,649,000 (1974 - \$3,956,000)	5,170,000	5,848,000

Petroleum and natural gas —

Acquisition and productive development costs less accumulated depletion of \$2,740,000 (1974 - \$2,673,000)	662,000	696,000
Production equipment less accumulated depreciation of \$1,542,000 (1974 - \$1,451,000)	365,000	386,000

Coal —

Acquisition, exploration and development costs	1,868,000	1,699,000
	<hr/> <u>9,983,000</u>	<hr/> <u>10,370,000</u>

OTHER:

Deferred costs (Note 4)	1,276,000	1,290,000
Notes receivable (Note 5)	122,000	122,000
Deposits and mortgages receivable	145,000	104,000
	<hr/> <u>1,543,000</u>	<hr/> <u>1,516,000</u>
	<hr/> <u>\$16,486,000</u>	<hr/> <u>\$16,128,000</u>

See accompanying notes.

LIABILITIES

CURRENT:

	1975	1974
Accounts payable and accrued charges.....	\$ 1,061,000	\$ 558,000
Income and other taxes payable.....	232,000	195,000
	<hr/>	<hr/>
	1,293,000	753,000
	<hr/>	<hr/>
DEFERRED INCOME TAXES	133,000	422,000
	<hr/>	<hr/>

SHAREHOLDERS' EQUITY:

Capital —

 Authorized —

 12,000 6% cumulative redeemable convertible
 preferred shares of \$25 par value each

 1,187,950 common shares at \$8 par value each

 Issued —

4,884 Series "A" preferred shares (Note 5)	122,000	122,000
745,872 common shares	5,968,000	5,968,000
Contributed surplus	567,000	567,000
Retained earnings.....	8,403,000	8,296,000
	<hr/>	<hr/>
	15,060,000	14,953,000
	<hr/>	<hr/>

On behalf of the Board:

N. B. IVORY, Director.

M. B. PEPPER, Director.

\$16,486,000 \$16,128,000



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
Sales:		
Forest products	\$6,643,000	\$ 9,216,000
Petroleum and natural gas.....	1,720,000	1,320,000
	<u>8,363,000</u>	<u>10,536,000</u>
Expenses:		
Operating	6,246,000	9,256,000
Write down of forest products inventories to net realizable value	—	1,047,000
Exploration	31,000	34,000
General and administrative	735,000	744,000
Depreciation	852,000	861,000
Depletion.....	315,000	468,000
	<u>8,179,000</u>	<u>12,410,000</u>
Operating income (loss).....	<u>184,000</u>	<u>(1,874,000)</u>
Other income:		
Interest and other income.....	208,000	275,000
Gain on sale of property	39,000	20,000
	<u>247,000</u>	<u>295,000</u>
Income (loss) before income tax reduction	431,000	(1,579,000)
Income tax reduction (Note 7).....	56,000	748,000
Net income (loss) for the year.....	<u>487,000</u>	<u>(831,000)</u>
Retained earnings, beginning of year.....	8,296,000	9,507,000
Dividends —		
Preferred.....	(7,000)	(7,000)
Common.....	(373,000)	(373,000)
Retained earnings, end of year.....	<u>\$8,403,000</u>	<u>\$ 8,296,000</u>
Earnings (loss) per share	<u>\$.65</u>	<u>(\$1.11)</u>

See accompanying notes.



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
Source of funds:		
Funds provided from (used in) operations —		
Net income (loss) for the year.....	\$ 487,000	\$ (831,000)
Add items not affecting funds		
Depreciation and depletion	1,167,000	1,329,000
Deferred income taxes.....	(289,000)	(661,000)
Gain on sale of property	(39,000)	(20,000)
	<u>1,326,000</u>	<u>(183,000)</u>
Proceeds from sales of fixed assets.....	85,000	67,000
Other.....	(27,000)	4,000
	<u>1,384,000</u>	<u>(112,000)</u>
Application of funds:		
Purchase of fixed assets.....	826,000	1,122,000
Dividends	380,000	380,000
	<u>1,206,000</u>	<u>1,502,000</u>
Increase (decrease) in working capital	178,000	(1,614,000)
Working capital, beginning of year.....	3,489,000	5,103,000
Working capital, end of year.....	<u>\$3,667,000</u>	<u>\$3,489,000</u>

See accompanying notes.



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1975

1. Accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of all the subsidiaries as follows:

Crow's Nest Pass Electric Light & Power Company Limited
Crows Nest Forest Products Company Limited
The Crow's Nest Pass Oil & Gas Company, Limited
Crows Nest Plywoods Limited
East Kootenay Lumber Company Limited
E. C. Letcher Lumber Company Limited
Fernie Equipment Company, Limited
Gold Creek Timber Company Limited
Knight Lumber Company Limited
Kootenay and Elk Railway Company
Line Creek Coal Company Ltd.
The Morrissey, Fernie & Michel Railway Company
St. Marys Lumber Co. Ltd.

(b) Inventories

Inventories are stated at the lower of average cost and net realizable value. Average cost includes laid down costs of materials as well as applicable direct labour and overhead. Net realizable value consists of anticipated sales values less estimated costs of completion and disposal.

(c) Forest products assets

The forest products fixed assets are valued at cost less accumulated depreciation and depletion. Depreciation is based on the estimated useful lives of the assets and is provided on the straight-line method for the sawmill and the reducing balance method for other plant and equipment.

Annual rates of depreciation for principal categories of assets are:

Sawmill	7 %
Logging and plant machinery	25 %
Automotive equipment	25 %

Depletion is provided on the unit of production method based on estimated reserves of timber.

(d) Petroleum and natural gas assets

Acquisition costs of properties and productive development costs are capitalized. The carrying costs of productive properties, exploration costs and non-productive development costs of petroleum and natural gas properties are expensed as incurred. Depletion is provided on the unit of production method based on estimated reserves of oil and gas and depreciation of production equipment is provided on the reducing balance method at an annual rate of 20%.

(e) Coal properties

Acquisition, exploration, development and carrying costs of coal properties are capitalized. Costs applicable to unevaluated properties are written off as incurred.

(f) Deferred costs

Costs applicable to the development of projects are deferred until such time as the related projects are completed or abandoned. At that time such costs are capitalized or expensed as appropriate.

2. Inventories

	1975	1974
Logs	\$ 502,000	\$1,156,000
Lumber	539,000	346,000
Materials and supplies	257,000	299,000
	<hr/> \$1,298,000	<hr/> \$1,801,000

3. Coal properties

The Company has reached an agreement in principle with Mitsui & Co., Ltd. under which a detailed feasibility study of the Company's Line Creek coal properties will commence in 1976. If, upon completion of the feasibility study, Mitsui elects to participate with the Company in a joint development of the property Mitsui will provide financing and acquire 49% of a joint venture company to be formed for that purpose.

4. Deferred costs

Deferred costs consist primarily of expenditures incurred in connection with a proposed railway. At the present time the Company is estopped from building the railway but these costs have continuing value in view of anticipated development of coal and other resource properties of Crows Nest and other companies in the area.

5. Notes receivable and preferred shares

The notes receivable are due from officers and employees and are secured by 4,884 Series "A" preferred shares issued in 1973 under an Executive Share Purchase Plan. The Series "A" preferred shares are convertible into common shares at the rate of ten common shares for eleven preferred shares.

6. Future income

As part of the consideration for the sale of the Company's coal properties to Kaiser Steel Corporation in 1968, the Company is entitled to receive payments of 50 cents per short ton of coal produced and shipped after January 1, 1977 from the properties sold. These payments are limited to an aggregate of \$34 million and will be included in income as received. The Company understands that, in 1975, approximately 6 million short tons of coal were produced and shipped from such properties.

7. Income taxes

Income tax reductions due to losses on forest products operations exceed income tax expense applicable to oil and gas operations.

8. Anti-Inflation program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on shareholder dividends which, during the year ending October 13, 1976, may not exceed \$.50 per common share.

9. Statutory information — Canada Corporations Act

Remuneration of ten directors	\$ 30,000
Remuneration of four officers	\$163,000
Two officers are also directors.	



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

TEN YEAR SUMMARY OF COMPARATIVE HIGHLIGHTS

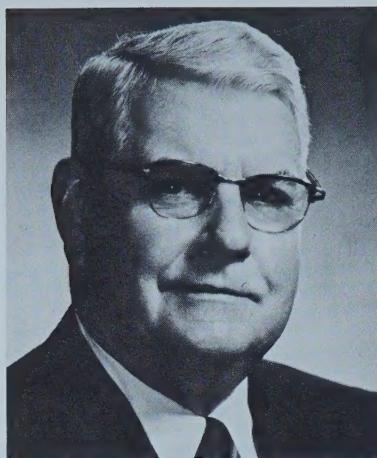
	1975	1974	1973
Sales of all products.....	\$ 8,363,000	\$10,536,000	\$ 18,713,000
Income (loss) before extraordinary items	487,000	(831,000)	2,737,000
Extraordinary items.....	—	—	1,210,000
Net income (loss) for year	487,000	(831,000)	3,947,000
Income (loss) per common share			
From operations65	(1.11)	3.67
Extraordinary items.....	—	—	1.62
Total65	(1.11)	5.29
Common shareholders' equity.....	14,938,000	14,831,000	16,042,000
Equity per common share	20.03	19.88	21.51
Cash dividends declared (common).....	373,000	373,000	746,000
Dividends per common share50	.50	1.00
Depreciation and depletion.....	1,167,000	1,329,000	1,677,000
Capital expenditures	826,000	1,351,000	2,065,000
Working capital.....	3,667,000	3,489,000	5,103,000
Production — lumber (fbm).....	52,258,312	76,160,334	117,685,885
Production — oil (bbls).....	175,248	198,873	259,254
Production — coal, coke and breeze (tons).....	—	—	—
Number of employees at year-end	232	178	391
Common shares at year-end			
Number outstanding.....	745,872	745,872	745,872
Percentage held by — Canadians	47%	45%	39%
— Others	53%	55%	61%
Number of shareholders at year-end			
Canadian	262	235	235
Other	208	229	237

1972	1971	1970	1969	1968	1967	1966
12,615,000	\$ 8,953,000	\$12,382,000	\$11,189,000	\$12,002,000	\$15,966,000	\$14,071,000
1,697,000	914,000	(2,726,000)	(1,515,000)	479,000	381,000	469,000
792,000	273,000	(2,513,000)	—	7,020,000	—	86,000
2,489,000	1,186,000	(5,239,000)	(1,515,000)	7,500,000	381,000	555,000
2.28	1.22	(3.65)	(2.07)	.66	.52	.65
1.06	.37	(3.37)	—	9.59	—	.12
3.34	1.59	(7.02)	(2.07)	10.25	.52	.77
12,846,000	10,730,000	9,730,000	15,079,000	17,142,000	10,103,000	10,236,000
17.22	14.39	13.04	20.62	23.45	13.91	14.12
373,000	186,000	110,000	548,000	548,000	544,000	541,000
.50	.25	.15 + 2% stk	.75	.75	.75	.75
1,339,000	1,245,000	1,157,000	863,000	637,000	1,135,000	1,319,000
1,553,000	720,000	1,262,000	5,425,000	2,395,000	1,090,000	1,804,000
1,569,000	(529,000)	(11,691,000)	(8,573,000)	(766,000)	473,000	888,000
99,416,526	92,326,957	91,822,345	53,823,668	39,489,957	47,831,535	68,813,323
329,917	351,800	344,593	290,846	233,582	174,086	170,008
—	—	—	—	167,617	1,105,387	1,009,003
404	394	420	428	344	818	830
745,872	745,872	745,872	731,175	731,175	726,550	724,675
41%	41%	41%	40%	26%	26%	30%
59%	59%	59%	60%	74%	74%	70%
246	261	258	255	252	305	364
228	222	237	228	261	253	275



CROWS NEST INDUSTRIES LIMITED

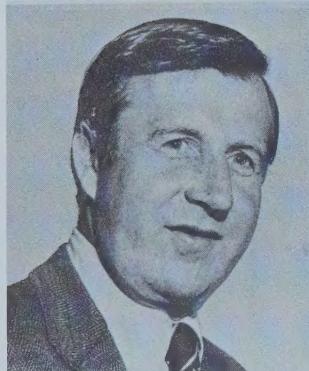
BOARD OF DIRECTORS



THOMAS F. GLEED, Seattle
Chairman



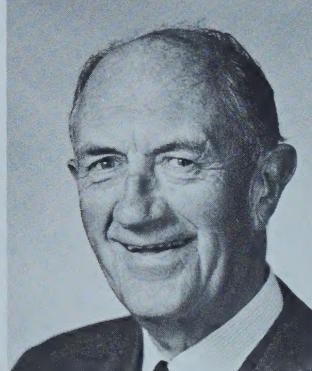
M. B. PEPPER, Fernie*†
President



SAMUEL K. KETCHAM, Vancouver
*President, West Fraser
Timber Co. Ltd.*



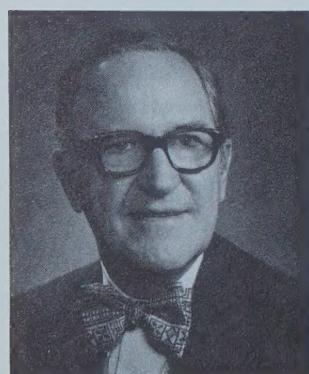
JOHN W. PITTS, Vancouver*†
President, Okanagan Helicopters Ltd.



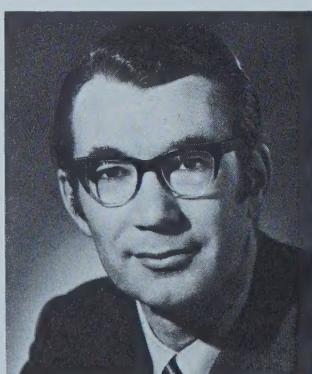
HENRY C. JUDD, Menlo Park
Retired



WILLIAM R. PRENTICE, Fernie
Retired



D. E. SKINNER, Seattle*
Executive



NEIL B. IVORY, Montreal*†
*President and Director,
Pembroke Management Ltd.*



GEORGE V. POWELL, Seattle
Lawyer



CLIFFORD L. LAROCK, Montreal*†
*Chairman and Director,
Pembroke Management Ltd.*

* Member Finance Committee
† Member Audit Committee



CROWS NEST INDUSTRIES LIMITED
SEVENTY-NINTH ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1975
Including Wholly-Owned Subsidiary Companies

Established 1897